

DE 03-185

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Application Regarding Freudenberg-NOK General Partnership

Order Approving Application

O R D E R N O. 24,226

October 28, 2003

On September 19, 2003, Public Service Company of New Hampshire (PSNH) filed with the New Hampshire Public Utilities Commission a request for approval of a proposed contractual arrangement between PSNH and Freudenberg-NOK General Partnership (Freudenberg) in connection with an energy efficiency pilot program approved by the Commission in Order No. 23,982 (May 31, 2002). In that Order, the Commission authorized the state's electric utilities to implement a series of statewide "Core" energy efficiency programs as well as certain utility-specific programs - among them a pilot program offered by PSNH seeking specific proposals from qualifying large commercial and industrial (C&I) customers. The programs approved in Order No. 23,982 are funded via the system benefits charge (SBC) paid by all customers pursuant to RSA 374-F:3, VI.

According to the PSNH filing we approved in 2002, the purpose of PSNH's C&I pilot program is "[t]o promote competitive market development in the energy efficiency industry by encouraging third parties to bid to undertake energy efficiency projects on a competitive basis" - particularly "large C&I

projects that are not participating through other existing energy efficiency programs." The program applies to customers with a minimum of 350 kilowatts of demand; the minimum total project cost is \$200,000 and each project must be designed to save at least 100,000 kilowatt-hours of energy per year.

PSNH's filing in the instant docket avers that Freudenberg was a winning bidder in connection with a PSNH request for proposals (RFP) issued on December 16, 2002 - proposing a \$665,290 project involving a series of energy efficiency and load management measures (including energy management systems and controls, variable speed drives, compressed air enhancements and window improvements) at Freudenberg's facility in Manchester. The proposal called for Freudenberg to make a lump-sum payment of \$332,645, half the project cost, with the remainder paid for with SBC funds. However, according to PSNH, Freudenberg later determined that it would be unable to make the required payment.

Desiring to move forward with the project nonetheless, PSNH requests authority from the Commission to fund the Freudenberg half of the project costs by advancing the sum to Freudenberg and requiring Freudenberg to repay it over 15 months on terms that are similar to those employed by PSNH in its "Pay As You Save" (PAYS) energy efficiency pilot program approved in Order No. 23,851, 86 NH PUC 814 (2001). To effectuate this plan,

PSNH seeks authority to transfer funds to cover the Freudenberg half of the project from other components of its energy efficiency budget. Specifically, PSNH seeks to reduce the budget of its small C&I retrofit program by \$282,645 and to exhaust its web-based audit program budget of \$50,000.

The budget transfer request is made pursuant to the recommendations of the Energy Efficiency Working Group that we approved in 2000. See *Electric Utility Restructuring - Energy Efficiency Programs*, 85 NH PUC 684 (2000). Among those recommendations was that utilities seek Commission approval for "[a]ny variance in spending for any individual [energy efficiency] program of 20% under or over budget." PSNH justifies its request by noting that (1) none of the applicable small C&I retrofit funds are committed to other customers, (2) PSNH believes it would be imprudent to purchase web-based audit tools based on the low level of acceptance of such an offering by customers of PSNH's affiliate in Connecticut, and (3) the Freudenberg project is expected to achieve energy savings of approximately 3 million kilowatt-hours per year.

As we have in other, similar circumstances, we approve the requested transfers from other energy efficiency programs. Staff's analysis of the PSNH request reports that PSNH has no other pending projects under its RFP program to which it could devote the proposed Freudenberg rebate and that, accordingly,

rejection of this project would mean those funds would likely go unused inasmuch as the current programs and budgets expire at year's end. We adopt this analysis, agree with PSNH that the project is likely to achieve significant public benefits and, accordingly, conclude that the requested reductions in other program budgets are consistent with the public interest.

However, there are certain aspects of the PSNH application that we either do not approve or defer to a more appropriate time. PSNH tendered its proposal in the form of a request for approval of a special contract, taking the position that its proposed arrangement with Freudenberg should be treated as a variation on the tariff approved in connection with the PAYS pilot. See RSA 378:18. We disagree with this approach for two reasons: (1) We do not believe that a special contract is necessary in order for PSNH to accept what is, in effect, a revised Freudenberg proposal under PSNH's already-approved large C&I RFP program, and (2) the Freudenberg proposal, although similar to PAYS, does not fit well into the PAYS paradigm because the project was not proposed according to the special cost-effectiveness formula particular to that program.

Similarly, we do not accept PSNH's request to increase the budget for its PAYS pilot by the amount necessary to cover the funds to be advanced to Freudenberg and repaid over 15 months. Instead, we direct PSNH to increase the budget of its

C&I RFP program by that amount in order to move forward with the project.

With respect to the particular terms of the Freudenberg proposal, it is our determination that in one key respect the PAYS model is not appropriate for this project. PAYS typically differentiates between permanent and non-permanent energy efficiency measures and, with respect to the former, gives the customer certain rights if the customer owns the premises where the measures are installed. Specifically, if the owner vacates the premises, the owner has the option of making any remaining payments upon closing the owner's account with PSNH or passing the obligation on to the next customer at the premises. In this instance, we require PSNH to impose upon Freudenberg the obligation to pay the outstanding balance on all project measures should Freudenberg cease to be a PSNH customer or vacate the premises where the measures are installed.

Finally, Staff reports that PSNH proposes to devote the funds repaid by Freudenberg to its PAYS program. We defer consideration of this plan to Docket No. DE 03-169 - the proceeding in which we are considering the electric utilities' proposed Core and utility-specific energy efficiency programs for 2004. Among PSNH's requests in that proceeding is a continuation of its current PAYS pilot program. Thus, Docket No. DE 03-169 presents the appropriate occasion for deciding whether an

increase to the PAYS revolving loan fund of more than \$300,000 is appropriate.

Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire be authorized to transfer \$282,645 in energy efficiency funds from its small commercial and industrial retrofit program and \$50,000 budgeted for the development of a web-based audit program to the large commercial and industrial request-for-proposals program, in order to permit Public Service Company of New Hampshire to accept a proposal from Freudenberg-NOK General Partnership.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of October, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary